93D CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 93-457

LIBERALIZATION OF ELIGIBILITY FOR CIVIL SERVICE RETIREMENT COST-OF-LIVING ANNUITY INCREASES

SEPTEMBER 10, 1973.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. WALDIE, from the Committee on Post Office and Civil Service, submitted the following

REPORT

[To accompany H.R. 3799]

The Committee on Post Office and Civil Service, to whom was referred the bill (H.R. 3799) to liberalize eligibility for cost-of-living increases in civil service retirement annuities, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

On page 2, strike out lines 21 through 25, and insert the following:

> SEC. 2. The amendments made by this Act shall apply only with respect to annuities which commence on or after July 2, 1973.

EXPLANATION OF AMENDMENT

The purpose of the amendment is to provide that the first section of the bill shall apply to annuities which commence on or after July 2, 1973, rather than only to those which commence after the next-occurring cost-of-living adjustment.

PURPOSE

The purpose of this legislation is to guarantee to an employee retiring under the Civil Service Retirement System, and to the widow of an employee who dies, after the effective date of a cost-of-living increase, an annuity equal to that which would have been payable had the commencing date of the annuity been the effective date of the last preceding cost-of-living annuity increase.

COMMITTEE ACTION

H.R. 3799 is based upon an official recommendation of the U.S. Civil Service Commission. It was approved by a unanimous voice vote of the

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Subcommittee on Retirement and Employee Benefits, and ordered reported, as amended, by a unanimous voice vote of the full committee.

Statement

Summary.—This legislation is designed to (1) eliminate the anomaly of a difference in amount between annuities that commence on or before the effective date of a cost-of-living annuity increase and those that commence shortly after that date; (2) moderate the peaking of retirements immediately before cost-of-living increases become effective; and (3) reduce the disruption in the work of Government agencies caused by many employees suddenly retiring at the same time.

Present law.—Section 8340 of title 5, United States Code, provides for automatic increases in civil service annuities whenever the cost-of-living, as determined by the nationwide Consumer Price Index, equals a rise of at least 3 percent over the index for the month upon which the most recent increase was based, and remains at or exceeds 3 percent for 3 consecutive months. Under this provision, annuity adjustments were authorized in 1965, 1967, 1968, 1969 (twice), 1970, 1971, 1972, and on July 1, 1973.

Eligibility for an annuity increase is governed by the commencing date of each annuity. Existing law provides that any such increase shall apply only to those annuities which have a commencing date not later than the effective date of the particular increase. In effect, an annuity which begins on or before the effective date of an adjustment is increased by the respective percentage authorized by operation of law.

To be entitled to the cost-of-living annuity increase an employee must retire no later than the day immediately preceding the date upon which the increase becomes effective.

Under present law, in order to have qualified for the most recent cost-of-living increase, effective July 1, 1973, an employee must have retired no later than June 30, 1973. Similarly, for the widow to be entitled to such increase, her husband's death must have occurred before July 1. If the employee continued in Federal employment after June 30, and retired or died shortly after June 30, the annuity benefit would be smaller than that which would have been payable had his retirement or death occurred prior to July 1. While the additional service and higher average pay would contribute to a larger annuity than otherwise would have been earned on June 30, it will take from 4 to 10 months (depending upon the employee's length of service and salary) to earn a benefit equal to the rate of annuity he or his widow would have received had separation or death occurred on or before June 30.

On each occasion when a cost-of-living adjustment has been triggered, experience shows that employees who had been planning to retire within several months after the effective date of an increase advance their retirement to just before that date in order to get the benefit of the increase. For example, the increase effective July 1, 1972, produced about 60,000 retirements in excess of the approximate 20,000 that normally would have occurred in a four-month period. Almost 90,000 employees retired during an identical time period as a result of the most recent increase effected July 1, 1973.

Thus, it was clearly demonstrated that the present adjustment feature operates to cluster retirements immediately before every cost-of-living increase, and results in not only placing a tremendous workload upon the Civil Service Commission, but causes serious delays in the adjudication of thousands of retiring employees' annuity claims and in the commencement of benefit payments. Further, employing agencies throughout the Government are adversely affected because of an inordinate number of employees deciding to retire on short notice, with many leaving prior to the completion of projects upon which they were working.

Committee's proposal.—Under H.R. 3799, an employee retiring on or after the effective date of a cost-of-living increase, and the widow of an employee who dies on or after that date, will be guaranteed an annuity at least as large as would have been payable if the employee had retired or died the day before the effective date of the increase. The provisions apply to annuities which commence on or after July 2, 1973.

This will eliminate the anomaly of an employee who is separated for retirement soon after the effective date of an increase receiving a smaller annuity than an employee who retires before the effective date, even though the individual who retires after the effective date of the increase has as much or more service and the same or larger high-three average salary. It will also eliminate the parallel anomaly for widows.

The bill stipulates, however, that in granting service credit for any unused sick leave to an employee's credit, the amount of the leave used in the computation of annuity which would have been payable had he retired immediately prior to the effective date of an increase will be the number of days of sick leave actually to his credit on the subsequent date of separation.

The bill does not apply to deferred annuities which commence after any such effective date. It will be applicable to an employee who is entitled to an immediate annuity, irrespective of the fact that he may not have met the age and service or other requirements for annuity before the effective date of the cost-of-living increase. In the committees' judgment, this is a fair and reasonable extension of the treatment that would be given to the widow whose husband dies after that date, and, particularly, the employee who becomes disabled or is separated by reduction in force after that date. Equity would appear to demand that all of these employees and survivors get no less in annuity than the amounts paid others on the basis of the same, or even shorter, service.

The committee shares the concern of the Civil Service Commission and employing agencies with the adverse effect the clustering of retirements has upon the administration of the retirement program in terms of peak workloads, the substantial administrative expenses incurred by the retirement fund in processing an inordinate influx of retirement applications, the inherent delay in the receipt of annuity payments, and the disruption of agency functions occasioned by an abnormal number of employees suddenly retiring at the same time.

It is the consensus of the committee that the enactment of H.R. 3799 will alleviate these administrative problems by evenly spacing retirements over a period of months, thus, serving the best interests of both the employees and the Government. The committee also recognizes that the cost resulting from its enactment would be largely offset by the appreciable savings to be realized in the administrative expenses of the Civil Service Retirement System.

Effective Date

The amendments made by the first section of the bill will apply generally to annuities which commence after the effective date of any future cost-of-living adjustment.

However, section 2 of the bill, as amended, retroactively extends the policy prescribed in the first section to those annuities which commence on or after July 2, 1973.

Section Analysis

First Section

The first section amends section 8340(c) of title 5, United States Code, to provide that an annuity of an employee or a Member that has a commencing date after the effective date of the last preceding cost-of-living increase under section 8340(b) of title 5, shall not be less than the annuity which would have been payable had the annuity commenced on the effective date of the last preceding cost-of-living increase. The employee or Member need not have been eligible for an annuity on the effective date of the last preceding cost-of-living increase in order to be entitled to the benefit under the amendment. The amendment made by the first section applies to annuities payable to widows or widowers of deceased employees or Members. However, the amendment does not apply to deferred annuities payable under section 8338 of title 5, United States Code, or under any other related provision of law.

The section also provides that for purposes of section 8339(m) of title 5, United States Code, the amount of unused sick leave which is used in computing the annuity which would have been payable had it commenced on the effective date of the last preceding cost-of-living increase shall be the number of days of sick leave to the employee's credit on the date of his separation from the service.

Section 2

Section 2 provides that the amendments made by the first section of the bill shall become effective retroactively, and apply to immediate annuities which commence on or after July 2, 1973. Thus, the bill will apply to those employees who retire or die in service after June 30, 1973, and to annuities which commence subsequent to July 1, 1973. The annuities of employees or surviving spouses would be computed (or recomputed) as though separation from Federal employment had occurred on June 30, 1973.

If such computation, increased by the latest 6.1 percent cost-of-living adjustment, results in an annuity exceeding the annuity earned on the date of actual separation, the former will be paid in lieu of the latter.

Estimated Cost

The cost of this legislation, which, under 5 U.S.C. 8348(g), represents a percentage of the interest ($500,000 annually) on the additional $10 million unfunded liability resulting from its enactment, is estimated to be as follows:

Fiscal year 1974 (40 percent of $500,000)	$200,000
Fiscal year 1975 (50 percent of $500,000)	250,000
Fiscal year 1976 (60 percent of $500,000)	300,000
Fiscal year 1977 (70 percent of $500,000)	350,000
Fiscal year 1978 (80 percent of $500,000)	400,000

Such interest would increase correspondingly by $50,000 in each subsequent year until 1980, and thereafter the full amount of interest would approximate $500,000. A similar unfunded liability would be created by each future cost-of-living adjustment and would be financed by similar transfers of moneys from the Treasury to the retirement fund.

The additional interest would be offset by savings ($300,000 in the case of the 1972 increase) in administrative expenses incident to each cost-of-living increase which is now being charged against the retirement fund for processing the peak retirement application workload which accompanies each cost-of-living adjustment.

The cost estimates appearing in nthe Civil Service Commission's letter of January 18, 1973, have been increased in the committee estimates to reflect the approximate costs of the actual 6.1 percent adjustment which occurred on July 1, 1973.

Administrative Recommendations

The provisions of the first section of the bill are based on an official recommendation of the Chairman of the U.S. Civil Service Commission, as contained in his letter of January 18, 1973, which follows:

U.S. Civil Service Commission,
Washington, D.C., January 18, 1973.

Hon. Carl Albert,
Speaker of the House of Representatives,
Washington, D.C.

Dear Mr. Speaker: The Commission submits for the consideration of the Congress, and recommends favorable action on, the attached legislative proposal which provides that the immediate (not deferred) Civil Service retirement annuity of an employee or Member of Congress retiring after the effective date of a cost-of-living annuity increase shall not be less than his annuity would have been if he had retired and had been eligible for annuity on the effective date. Similarly, the proposal provides that the annuity of an employee's or Member's widow(er) commencing after the effective date of a cost-of-living annuity increase shall not be less than it would have been if it had commenced on the effective date.

Whether an employee's annuity will be greater computed on the basis of (1) service and salary up to the effective date of the most recent cost-of-living increase, plus that percentage increase or (2) all service and salary up to the date of actual separation, without a cost-of-living increase, depends on factors which vary with the individual. Assuming a normal pattern of past and future salary increases, and a 5 percent cost-of-living increase, an employee would need 3–10 additional months' service, depending on his total years of service, for his annuity without the cost-of-living increase to equal the amount he could get if he had retired on the effective date of the cost-of-living increase. Under the proposal, an employee would in all cases receive the larger annuity.

The present cost-of-living adjustment provision, found in 5 U.S.C. 8340, provides that an employee must retire and his annuity must commence on or before the effective date of a cost-of-living annuity increase in order to have it applied in the computation of his annuity. The reasons for the proposed change are:

(1) The present provision produces the anomaly of an employee who retires soon after the effective date of an increase receiving less annuity than an employee, with the same service beginning date and high three-year average salary, who retires on or before the effective date, even though the employee who retires after the effective date has more service. A similar anomaly exists in computing a survivor's annuity beause the survivor of an employee who dies on or before the effective date of a cost-of-living increase receives the increase, but the survivor of an employee who dies after the effective date does not receive it.

(2) We are concerned about the way the large number of retirements which follow cost-of-living annuity adjustments affects the administration of the Civil Service Retirement System. The present cost-of-living adjustment provision "bunches" retirements immediately before the effective date of every cost-of-living annuity increase by accelerating the retirements of employees who had been planning to leave within six months or so after that date. The last such increase, effective July 1, 1972, for example, produced about 60,000 retirements in addition to the 20,000 or less that occur in a normal four-month period. Despite the Commission's plans to cope with such a peak load, work is disrupted and annuity payments are seriously delayed when so many retirements that would otherwise have been evenly spaced over a period of several months occur at the same time.

(3) Agencies throughout the Government are also adversely affected because an inordinate number of employees decide to retire immediately before a cost-of-living annuity increase. Many of these people if they are willing, must be reemployed as annuitants to complete the projects on which they were working.

Enactment of the draft bill would (1) eliminate the anomaly between annuities that commence on or just before the effective date of a cost-of-living increase and those that commence shortly after that date; (2) moderate the peaking of retirements immediately before cost-of-living increases become effective, with an estimated savings of $300,000 in administrative expenses now charged against the Civil Service retirement and disability fund for processing the peak work load that accompanies each cost-of-living adjustment; and, (3) reduce the disruption in the work of agencies throughout the Government caused by many employees suddenly retiring at the same time, with many leaving work projects incomplete.

To the extent that employees delayed retirement by a few months they would (1) pay contributions to the Fund for a longer period, and (2) not receive any annuity for those months—a combination necessarily resulting in more money in the Fund. On the other hand, to the extent that employees who would have retired after the effective date of the cost-of-living increase anyway receive a higher annuity than they would have received if they had retired on the effective date, more money would be paid out of the Fund.

The additional annuity benefits which would be provided by the draft bill for each cost-of-living annuity increase authorized on or after its enactment would increase the unfunded liability of the Civil Service retirement and disability fund. Assuming, for example, that the draft bill is enacted and that then a 4.5 percent cost-of-living annuity increase is effective July 1, 1973, the unfunded liability of the Fund would be increased by $7.5 million. The annual interest on this $7.5 million would be $375,000.

Under 5 U.S.C. 8348(g), the Secretary of the Treasury, before closing the accounts for a fiscal year, would have to credit to the Fund, as a Government contribution, out of any money in the Treasury of the United States not otherwise appropriated, the following percentages of all interest on the unfunded liability existing at the start of that fiscal year: 40 percent for 1974; 50 percent for 1975; 60 percent for 1976; and continuing to increase by 10 percent each year until 100 percent of the interest would have to be credited for fiscal year 1980 and for each fiscal year thereafter.

Each additional cost-of-living annuity increase authorized subsequent to fiscal year 1973 would have a cumulative effect on the Retirement Fund's unfunded liability and the annual interest thereon. If, for example, there is one cost-of-living annuity increase of 4.5 percent in each fiscal year 1974 through 1980, the unfunded liability would be increased by a little over $52.5 million, and the annual cumulative interest payment due the Fund from the Secretary of the Treasury at the end of fiscal year 1981 would be a little over $2.6 million.

The Office of Management and Budget advises that there is no objection from the standpoint of the administration's program to the submission of this draft bill to Congress.

A similar letter is being sent to the President of the Senate.

By direction of the Commission:

Sincerely yours,

ROBERT HAMPTON, *Chairman.*

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 5, UNITED STATES CODE

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Subpart G—Insurance and Annuities

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Chapter 83—RETIREMENT

SUBCHAPTER III—CIVIL SERVICE RETIREMENT

* * * * * * *

§ 8340. Cost-of-living adjustment of annuities

(a) * * *

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(c) Eligibility for an annuity increase under this section is governed by the commencing date of each annuity payable from the Fund as of the effective date of an increase, except as follows:

(1) An annuity (except a deferred annuity under section 8338 of this title or any other provision of law) which—

(A) is payable from the Fund to an employee or Member who retires, or to the widow or widower of a deceased employee or Member; and

(B) has a commencing date after the effective date of the then last preceding annuity increase under subsection (b) of this section;

shall not be less than the annuity which would have been payable if the commencing date of such annuity had been the effective date of the then last preceding annuity increase under subsection (b) of this section. In the administration of this paragraph, an employee or a deceased employee shall be deemed, for the purposes of section 8339(n) of this title, to have to his credit, on the effective date of the then last preceding annuity increase under subsection (b) of this section, a number of days of unused sick leave equal to the number of days of unused sick leave to his credit on the date of his separation from the service.

[(1)] *(2)* Effective from its commencing date, an annuity payable from the Fund to an annuitant's survivor (except a child entitled under section 8341(e) of this title), which annuity commences the day after the death of the annuitant and after the effective date of the first increase under this section, shall be increased by the total percent increase the annuitant was receiving under this section at death. However, the increase in a survivor annuity authorized by section 8 of the Act of May 29, 1930, as amended to July 6, 1950, shall be computed as if the annuity commencing date had been the effective date of the first increase under this section.

[(2)] *(3)* For the purpose of computing the annuity of a child under section 8341(e) of this title that commences on or after the first day of the first month that begins on or after the date of enactment of the Civil Service Retirement Amendments of 1969, the items $900, $1,080, $2,700, and $3,240 appearing in section 8341(e) of this title shall be increased by the total percent increases allowed and in force under this section on or after such day and, in case of a deceased annuitant, the items 60 percent and 75 percent appearing in section 8341(e) of this title shall be increased by the total percent allowed and in force to the annuitant under this section on or after such day.

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REPORT

[To accompany H.R. 3799]

The Committee on Post Office and Civil Service, to whom was referred the bill (H.R. 3799) to liberalize eligibility for cost-of-living increases in civil service retirement annuities, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

On page 2, strike out lines 21 through 25, and insert the following:

> SEC. 2. The amendments made by this Act shall apply only with respect to annuities which commence on or after July 2, 1973.

EXPLANATION OF AMENDMENT

The purpose of the amendment is to provide that the first section of the bill shall apply to annuities which commence on or after July 2, 1973, rather than only to those which commence after the next-occurring cost-of-living adjustment.

PURPOSE

The purpose of this legislation is to guarantee to an employee retiring under the Civil Service Retirement System, and to the widow of an employee who dies, after the effective date of a cost-of-living increase, an annuity equal to that which would have been payable had the commencing date of the annuity been the effective date of the last preceding cost-of-living annuity increase.

COMMITTEE ACTION

H.R. 3799 is based upon an official recommendation of the U.S. Civil Service Commission. It was approved by a unanimous voice vote of the

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Subcommittee on Retirement and Employee Benefits, and ordered reported, as amended, by a unanimous voice vote of the full committee.

STATEMENT

Summary.—This legislation is designed to (1) eliminate the anomaly of a difference in amount between annuities that commence on or before the effective date of a cost-of-living annuity increase and those that commence shortly after that date; (2) moderate the peaking of retirements immediately before cost-of-living increases become effective; and (3) reduce the disruption in the work of Government agencies caused by many employees suddenly retiring at the same time.

Present law.—Section 8340 of title 5, United States Code, provides for automatic increases in civil service annuities whenever the cost-of-living, as determined by the nationwide Consumer Price Index, equals a rise of at least 3 percent over the index for the month upon which the most recent increase was based, and remains at or exceeds 3 percent for 3 consecutive months. Under this provision, annuity adjustments were authorized in 1965, 1967, 1968, 1969 (twice), 1970, 1971, 1972, and on July 1, 1973.

Eligibility for an annuity increase is governed by the commencing date of each annuity. Existing law provides that any such increase shall apply only to those annuities which have a commencing date not later than the effective date of the particular increase. In effect, an annuity which begins on or before the effective date of an adjustment is increased by the respective percentage authorized by operation of law.

To be entitled to the cost-of-living annuity increase an employee must retire no later than the day immediately preceding the date upon which the increase becomes effective.

Under present law, in order to have qualified for the most recent cost-of-living increase, effective July 1, 1973, an employee must have retired no later than June 30, 1973. Similarly, for the widow to be entitled to such increase, her husband's death must have occurred before July 1. If the employee continued in Federal employment after June 30, and retired or died shortly after June 30, the annuity benefit would be smaller than that which would have been payable had his retirement or death occurred prior to July 1. While the additional service and higher average pay would contribute to a larger annuity than otherwise would have been earned on June 30, it will take from 4 to 10 months (depending upon the employee's length of service and salary) to earn a benefit equal to the rate of annuity he or his widow would have received had separation or death occurred on or before June 30.

On each occasion when a cost-of-living adjustment has been triggered, experience shows that employees who had been planning to retire within several months after the effective date of an increase advance their retirement to just before that date in order to get the benefit of the increase. For example, the increase effective July 1, 1972, produced about 60,000 retirements in excess of the approximate 20,000 that normally would have occurred in a four-month period. Almost 90,000 employees retired during an identical time period as a result of the most recent increase effected July 1, 1973.

Thus, it was clearly demonstrated that the present adjustment feature operates to cluster retirements immediately before every cost-of-living increase, and results in not only placing a tremendous workload upon the Civil Service Commission, but causes serious delays in the adjudication of thousands of retiring employees' annuity claims and in the commencement of benefit payments. Further, employing agencies throughout the Government are adversely affected because of an inordinate number of employees deciding to retire on short notice, with many leaving prior to the completion of projects upon which they were working.

Committee's proposal.—Under H.R. 3799, an employee retiring on or after the effective date of a cost-of-living increase, and the widow of an employee who dies on or after that date, will be guaranteed an annuity at least as large as would have been payable if the employee had retired or died the day before the effective date of the increase. The provisions apply to annuities which commence on or after July 2, 1973.

This will eliminate the anomaly of an employee who is separated for retirement soon after the effective date of an increase receiving a smaller annuity than an employee who retires before the effective date, even though the individual who retires after the effective date of the increase has as much or more service and the same or larger high-three average salary. It will also eliminate the parallel anomaly for widows.

The bill stipulates, however, that in granting service credit for any unused sick leave to an employee's credit, the amount of the leave used in the computation of annuity which would have been payable had he retired immediately prior to the effective date of an increase will be the number of days of sick leave actually to his credit on the subsequent date of separation.

The bill does not apply to deferred annuities which commence after any such effective date. It will be applicable to an employee who is entitled to an immediate annuity, irrespective of the fact that he may not have met the age and service or other requirements for annuity before the effective date of the cost-of-living increase. In the committees' judgment, this is a fair and reasonable extension of the treatment that would be given to the widow whose husband dies after that date, and, particularly, the employee who becomes disabled or is separated by reduction in force after that date. Equity would appear to demand that all of these employees and survivors get no less in annuity than the amounts paid others on the basis of the same, or even shorter, service.

The committee shares the concern of the Civil Service Commission and employing agencies with the adverse effect the clustering of retirements has upon the administration of the retirement program in terms of peak workloads, the substantial administrative expenses incurred by the retirement fund in processing an inordinate influx of retirement applications, the inherent delay in the receipt of annuity payments, and the disruption of agency functions occasioned by an abnormal number of employees suddenly retiring at the same time.

It is the consensus of the committee that the enactment of H.R. 3799 will alleviate these administrative problems by evenly spacing retirements over a period of months, thus, serving the best interests of both the employees and the Government. The committee also recognizes that the cost resulting from its enactment would be largely offset by the appreciable savings to be realized in the administrative expenses of the Civil Service Retirement System.

Effective Date

The amendments made by the first section of the bill will apply generally to annuities which commence after the effective date of any future cost-of-living adjustment.

However, section 2 of the bill, as amended, retroactively extends the policy prescribed in the first section to those annuities which commence on or after July 2, 1973.

Section Analysis

First Section

The first section amends section 8340(c) of title 5, United States Code, to provide that an annuity of an employee or a Member that has a commencing date after the effective date of the last preceding cost-of-living increase under section 8340(b) of title 5, shall not be less than the annuity which would have been payable had the annuity commenced on the effective date of the last preceding cost-of-living increase. The employee or Member need not have been eligible for an annuity on the effective date of the last preceding cost-of-living increase in order to be entitled to the benefit under the amendment. The amendment made by the first section applies to annuities payable to widows or widowers of deceased employees or Members. However, the amendment does not apply to deferred annuities payable under section 8338 of title 5, United States Code, or under any other related provision of law.

The section also provides that for purposes of section 8339(m) of title 5, United States Code, the amount of unused sick leave which is used in computing the annuity which would have been payable had it commenced on the effective date of the last preceding cost-of-living increase shall be the number of days of sick leave to the employee's credit on the date of his separation from the service.

Section 2

Section 2 provides that the amendments made by the first section of the bill shall become effective retroactively, and apply to immediate annuities which commence on or after July 2, 1973. Thus, the bill will apply to those employees who retire or die in service after June 30, 1973, and to annuities which commence subsequent to July 1, 1973. The annuities of employees or surviving spouses would be computed (or recomputed) as though separation from Federal employment had occurred on June 30, 1973.

If such computation, increased by the latest 6.1 percent cost-of-living adjustment, results in an annuity exceeding the annuity earned on the date of actual separation, the former will be paid in lieu of the latter.

ESTIMATED COST

The cost of this legislation, which, under 5 U.S.C. 8348(g), represents a percentage of the interest ($500,000 annually) on the additional $10 million unfunded liability resulting from its enactment, is estimated to be as follows:

Fiscal year 1974 (40 percent of $500,000)	$200, 000
Fiscal year 1975 (50 percent of $500,000)	250, 000
Fiscal year 1976 (60 percent of $500,000)	300, 000
Fiscal year 1977 (70 percent of $500,000)	350, 000
Fiscal year 1978 (80 percent of $500,000)	400, 000

Such interest would increase correspondingly by $50,000 in each subsequent year until 1980, and thereafter the full amount of interest would approximate $500,000. A similar unfunded liability would be created by each future cost-of-living adjustment and would be financed by similar transfers of moneys from the Treasury to the retirement fund.

The additional interest would be offset by savings ($300,000 in the case of the 1972 increase) in administrative expenses incident to each cost-of-living increase which is now being charged against the retirement fund for processing the peak retirement application workload which accompanies each cost-of-living adjustment.

The cost estimates appearing in nthe Civil Service Commission's letter of January 18, 1973, have been increased in the committee estimates to reflect the approximate costs of the actual 6.1 percent adjustment which occurred on July 1, 1973.

ADMINISTRATIVE RECOMMENDATIONS

The provisions of the first section of the bill are based on an official recommendation of the Chairman of the U.S. Civil Service Commission, as contained in his letter of January 18, 1973, which follows:

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., January 18, 1973.

Hon. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: The Commission submits for the consideration of the Congress, and recommends favorable action on, the attached legislative proposal which provides that the immediate (not deferred) Civil Service retirement annuity of an employee or Member of Congress retiring after the effective date of a cost-of-living annuity increase shall not be less than his annuity would have been if he had retired and had been eligible for annuity on the effective date. Similarly, the proposal provides that the annuity of an employee's or Member's widow(er) commencing after the effective date of a cost-of-living annuity increase shall not be less than it would have been if it had commenced on the effective date.

Whether an employee's annuity will be greater computed on the basis of (1) service and salary up to the effective date of the most recent cost-of-living increase, plus that percentage increase or (2) all service and salary up to the date of actual separation, without a cost-of-living increase, depends on factors which vary with the individual. Assuming a normal pattern of past and future salary increases, and a 5 percent cost-of-living increase, an employee would need 3–10 additional months' service, depending on his total years of service, for his annuity without the cost-of-living increase to equal the amount he could get if he had retired on the effective date of the cost-of-living increase. Under the proposal, an employee would in all cases receive the larger annuity.

The present cost-of-living adjustment provision, found in 5 U.S.C. 8340, provides that an employee must retire and his annuity must commence on or before the effective date of a cost-of-living annuity increase in order to have it applied in the computation of his annuity. The reasons for the proposed change are:

(1) The present provision produces the anomaly of an employee who retires soon after the effective date of an increase receiving less annuity than an employee, with the same service beginning date and high three-year average salary, who retires on or before the effective date, even though the employee who retires after the effective date has more service. A similar anomaly exists in computing a survivor's annuity beause the survivor of an employee who dies on or before the effective date of a cost-of-living increase receives the increase, but the survivor of an employee who dies after the effective date does not receive it.

(2) We are concerned about the way the large number of retirements which follow cost-of-living annuity adjustments affects the administration of the Civil Service Retirement System. The present cost-of-living adjustment provision "bunches" retirements immediately before the effective date of every cost-of-living annuity increase by accelerating the retirements of employees who had been planning to leave within six months or so after that date. The last such increase, effective July 1, 1972, for example, produced about 60,000 retirements in addition to the 20,000 or less that occur in a normal four-month period. Despite the Commission's plans to cope with such a peak load, work is disrupted and annuity payments are seriously delayed when so many retirements that would otherwise have been evenly spaced over a period of several months occur at the same time.

(3) Agencies throughout the Government are also adversely affected because an inordinate number of employees decide to retire immediately before a cost-of-living annuity increase. Many of these people if they are willing, must be reemployed as annuitants to complete the projects on which they were working.

Enactment of the draft bill would (1) eliminate the anomaly between annuities that commence on or just before the effective date of a cost-of-living increase and those that commence shortly after that date; (2) moderate the peaking of retirements immediately before cost-of-living increases become effective, with an estimated savings of $300,000 in administrative expenses now charged against the Civil Service retirement and disability fund for processing the peak work load that accompanies each cost-of-living adjustment; and, (3) reduce the disruption in the work of agencies throughout the Government caused by many employees suddenly retiring at the same time, with many leaving work projects incomplete.

To the extent that employees delayed retirement by a few months they would (1) pay contributions to the Fund for a longer period, and (2) not receive any annuity for those months—a combination necessarily resulting in more money in the Fund. On the other hand, to the extent that employees who would have retired after the effective date of the cost-of-living increase anyway receive a higher annuity than they would have received if they had retired on the effective date, more money would be paid out of the Fund.

The additional annuity benefits which would be provided by the draft bill for each cost-of-living annuity increase authorized on or after its enactment would increase the unfunded liability of the Civil Service retirement and disability fund. Assuming, for example, that the draft bill is enacted and that then a 4.5 percent cost-of-living annuity increase is effective July 1, 1973, the unfunded liability of the Fund would be increased by $7.5 million. The annual interest on this $7.5 million would be $375,000.

Under 5 U.S.C. 8348(g), the Secretary of the Treasury, before closing the accounts for a fiscal year, would have to credit to the Fund, as a Government contribution, out of any money in the Treasury of the United States not otherwise appropriated, the following percentages of all interest on the unfunded liability existing at the start of that fiscal year: 40 percent for 1974; 50 percent for 1975; 60 percent for 1976; and continuing to increase by 10 percent each year until 100 percent of the interest would have to be credited for fiscal year 1980 and for each fiscal year thereafter.

Each additional cost-of-living annuity increase authorized subsequent to fiscal year 1973 would have a cumulative effect on the Retirement Fund's unfunded liability and the annual interest thereon. If, for example, there is one cost-of-living annuity increase of 4.5 percent in each fiscal year 1974 through 1980, the unfunded liability would be increased by a little over $52.5 million, and the annual cumulative interest payment due the Fund from the Secretary of the Treasury at the end of fiscal year 1981 would be a little over $2.6 million.

The Office of Management and Budget advises that there is no objection from the standpoint of the administration's program to the submission of this draft bill to Congress.

A similar letter is being sent to the President of the Senate.

By direction of the Commission:

Sincerely yours,

ROBERT HAMPTON, *Chairman.*

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 5, UNITED STATES CODE

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Subpart G—Insurance and Annuities

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Chapter 83—RETIREMENT

SUBCHAPTER III.—CIVIL SERVICE RETIREMENT

*   *   *   *   *   *   *

§ 8340. Cost-of-living adjustment of annuities

(a) * * *

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(c) Eligibility for an annuity increase under this section is governed by the commencing date of each annuity payable from the Fund as of the effective date of an increase, except as follows:

(1) An annuity (except a deferred annuity under section 8338 of this title or any other provision of law) which—

(A) is payable from the Fund to an employee or Member who retires, or to the widow or widower of a deceased employee or Member; and

(B) has a commencing date after the effective date of the then last preceding annuity increase under subsection (b) of this section;

shall not be less than the annuity which would have been payable if the commencing date of such annuity had been the effective date of the then last preceding annuity increase under subsection (b) of this section. In the administration of this paragraph, an employee or a deceased employee shall be deemed, for the purposes of section 8339(n) of this title, to have to his credit, on the effective date of the then last preceding annuity increase under subsection (b) of this section, a number of days of unused sick leave equal to the number of days of unused sick leave to his credit on the date of his separation from the service.

[(1)] *(2)* Effective from its commencing date, an annuity payable from the Fund to an annuitant's survivor (except a child entitled under section 8341(e) of this title), which annuity commences the day after the death of the annuitant and after the effective date of the first increase under this section, shall be increased by the total percent increase the annuitant was receiving under this section at death. However, the increase in a survivor annuity authorized by section 8 of the Act of May 29, 1930, as amended to July 6, 1950, shall be computed as if the annuity commencing date had been the effective date of the first increase under this section.

[(2)] *(3)* For the purpose of computing the annuity of a child under section 8341(e) of this title that commences on or after the first day of the first month that begins on or after the date of enactment of the Civil Service Retirement Amendments of 1969, the items $900, $1,080, $2,700, and $3,240 appearing in section 8341(e) of this title shall be increased by the total percent increases allowed and in force under this section on or after such day and, in case of a deceased annuitant, the items 60 percent and 75 percent appearing in section 8341(e) of this title shall be increased by the total percent allowed and in force to the annuitant under this section on or after such day.

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